

The Budget

- State priorities are typically set in the budget process.
- So how has that worked?

The Old Budget Game

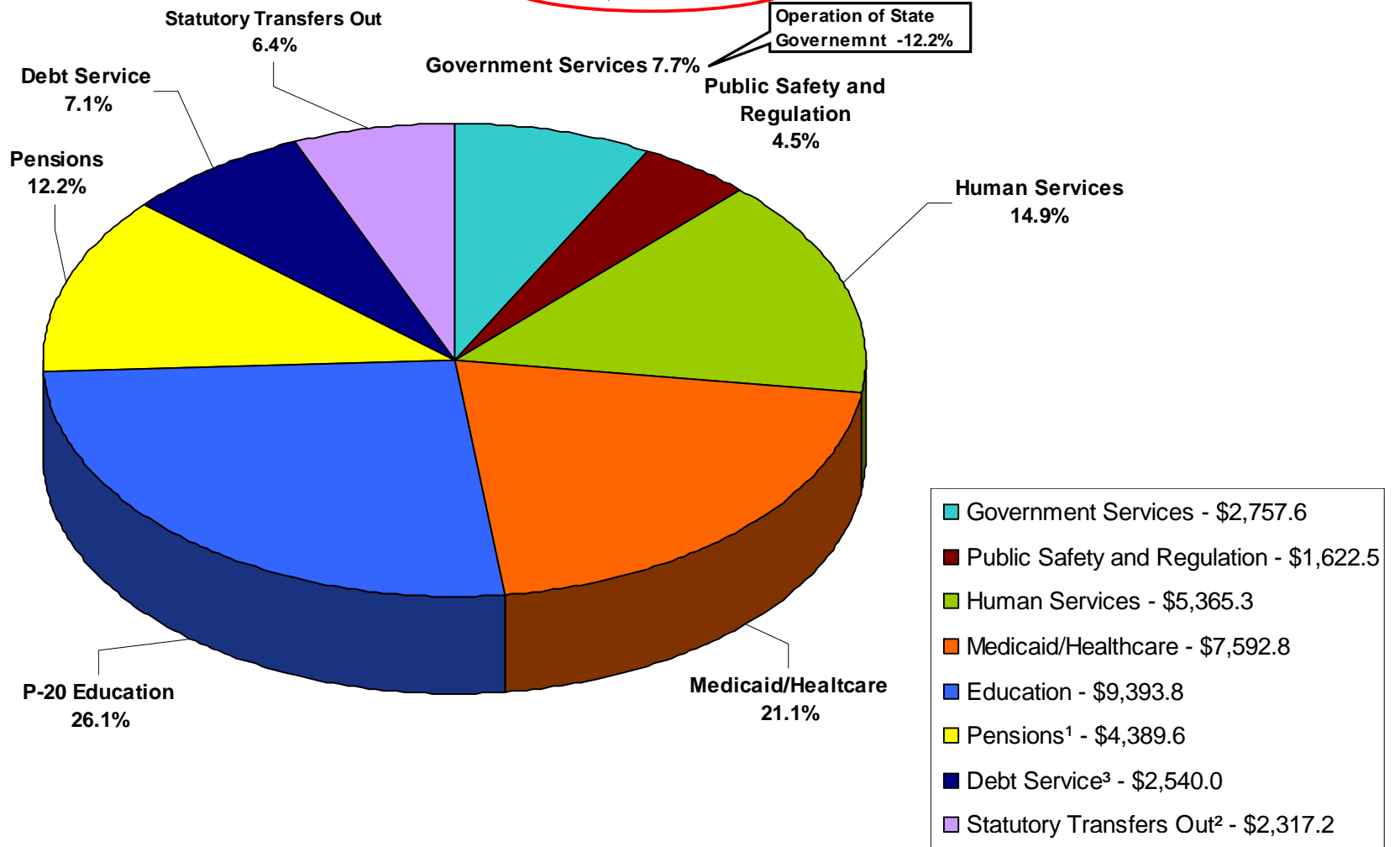
| Cost- Based Budgeting | |
|------------------------------|---|
| Starting Point | Last Year = BASE costs |
| Focus | Add/ Subtract costs re: BASE |
| Addition | Autopilot increases = new BASE Plus "needs" |
| Subtraction | "Cut" from <u>new</u> BASE |
| Submission | Justification for needs/costs -- plus a little extra |

The Old Game (cont'd)

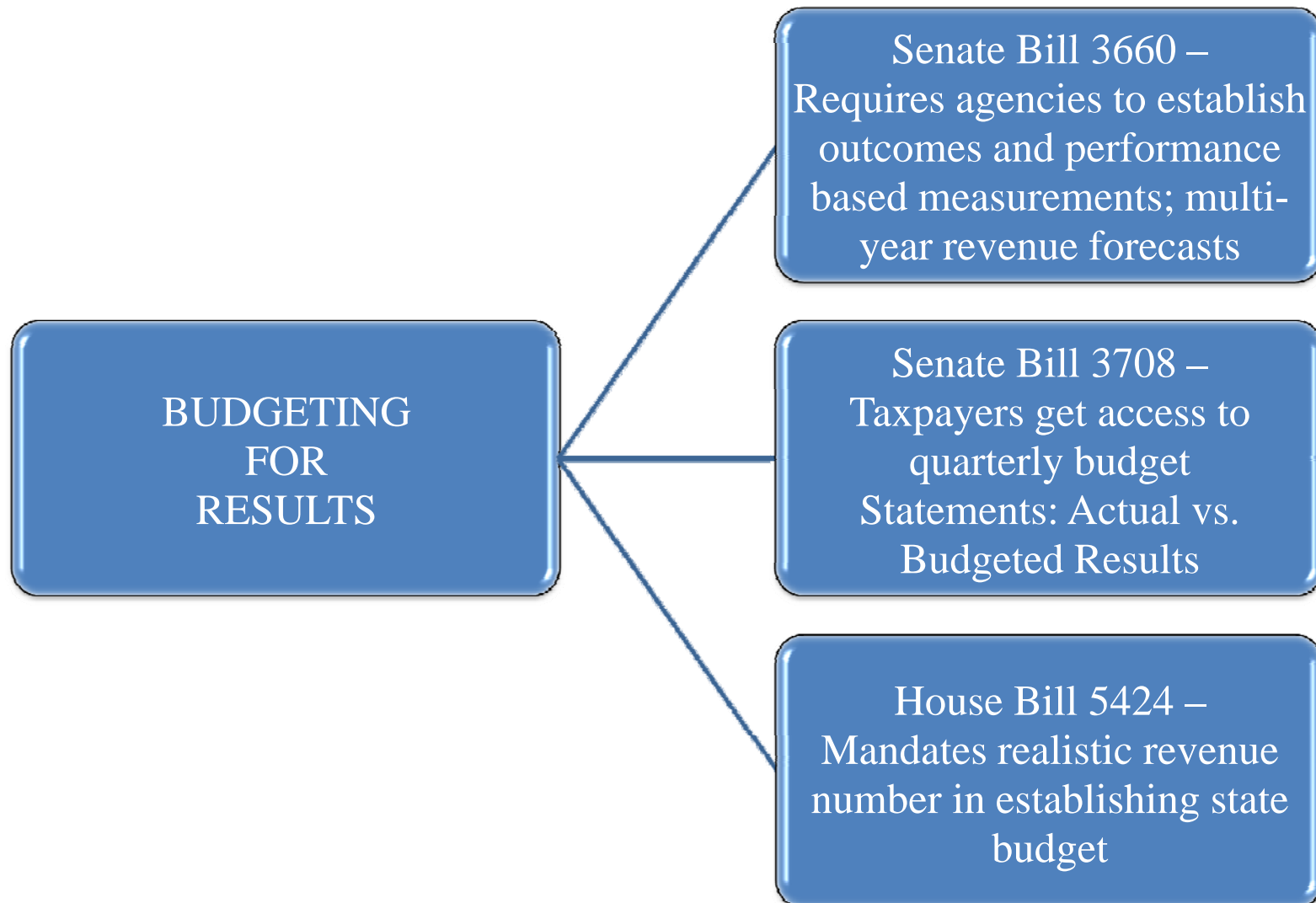
| | |
|------------------------|--|
| Incentives | Build up costs - make cuts hard |
| Analyst's job | Find hidden/ unnecessary costs |
| Elected's job | Choose to cut services, OR Raise taxes to cover costs GET BLAMED! |
| Focus of debate | What to cut What to tax |
| What drives decisions? | Avoiding pain before next election |

Governor Quinn's Proposed FY 2012 GRF Operating Expenditures and Transfers Out

\$35,978 Million



Spending Reform Laws



Budgeting for Results Asks Four Basic Questions

- How much revenue will we have?
- What outcomes matter most to our citizens?
- How much should we spend to achieve each outcome?
- How can we BEST deliver each outcome that citizens expect?

1. Decide How Much to Spend

- In the Senate, we used the revenue estimate of \$34,282 billion (the House: \$33,173.5).
 - Our number was based on the revenue estimates of COGFA (Commission on Government Forecasting and Accountability) less their inclusion of monies resulting from the passage of future legislation.
 - It was historic because the budget process typically starts with costs, not with revenue.
 - Means that we are cutting a minimum of \$1.689 billion from Gov's introduced budget.

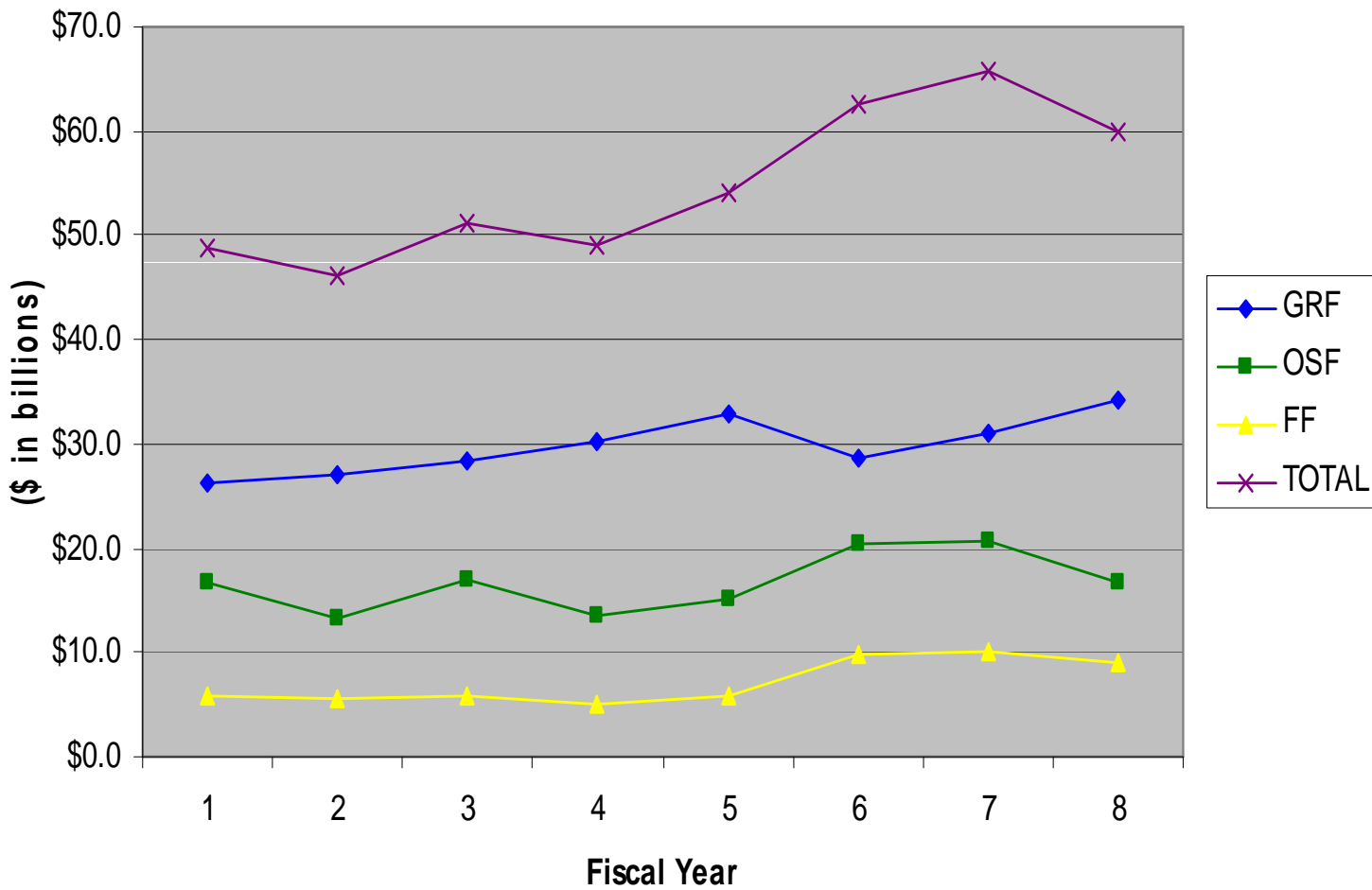
Summary of State of Illinois Spending

FY 05- FY 12

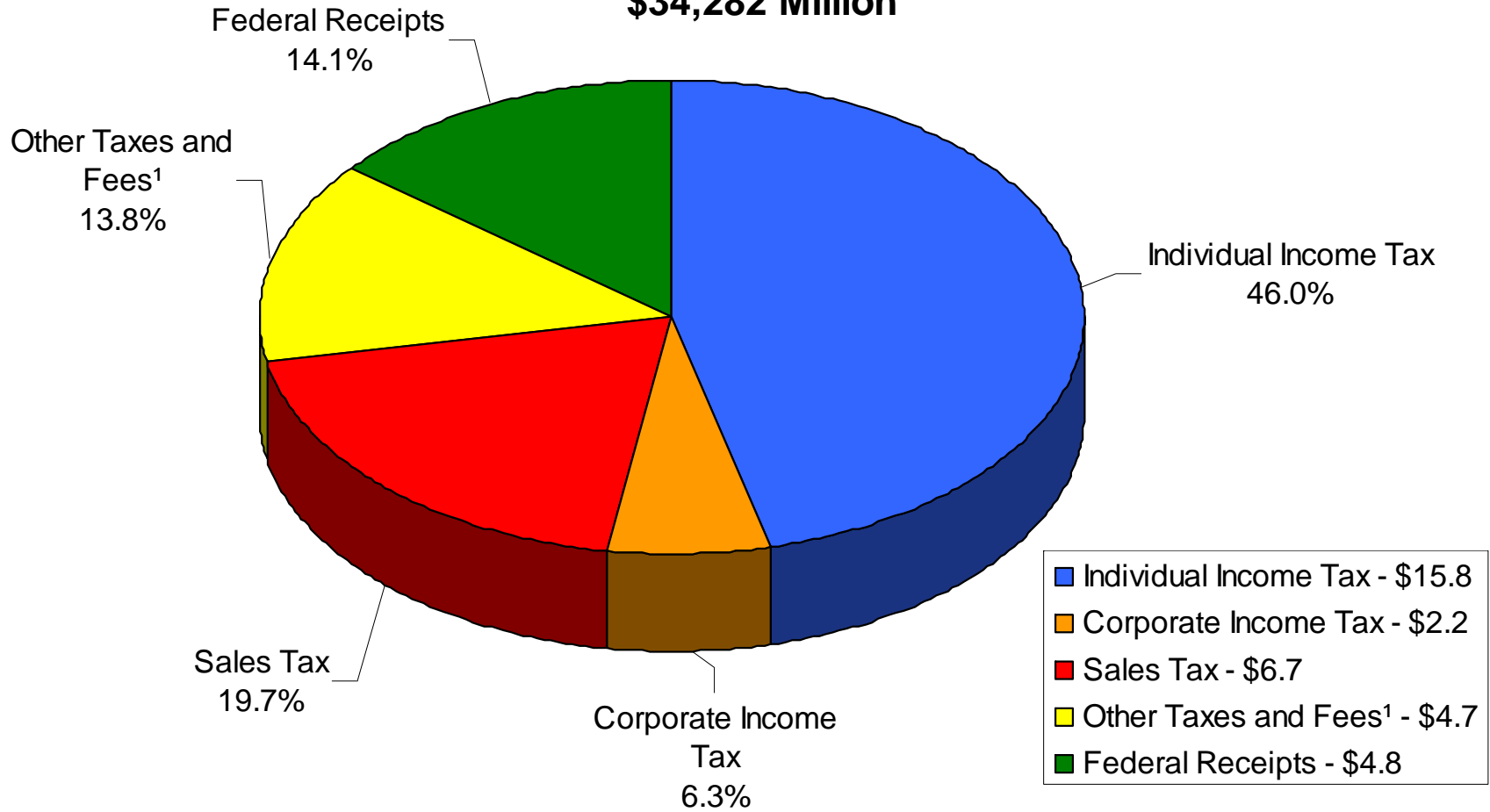
(In Billions)

| \$ in billions | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| GRF | \$26.2 | \$27.2 | \$28.5 | \$30.4 | \$33.0 | \$28.7 | \$31.1 | \$33.1 |
| OSF | \$16.8 | \$13.2 | \$17.0 | \$13.6 | \$15.1 | \$20.5 | \$20.8 | \$16.8 |
| FF | \$5.8 | \$5.7 | \$5.8 | \$5.0 | \$5.9 | \$9.9 | \$10.2 | \$8.9 |
| Subtotal | \$48.8 | \$46.1 | \$51.3 | \$49.0 | \$54.0 | \$59.1 | \$62.1 | \$58.9 |
| Bonded Pensions | | | | | | \$3.4 | \$3.7 | |
| TOTAL | \$48.8 | \$46.1 | \$51.3 | \$49.0 | \$54.0 | \$62.5 | \$65.8 | \$58.9 |

IL Spending History

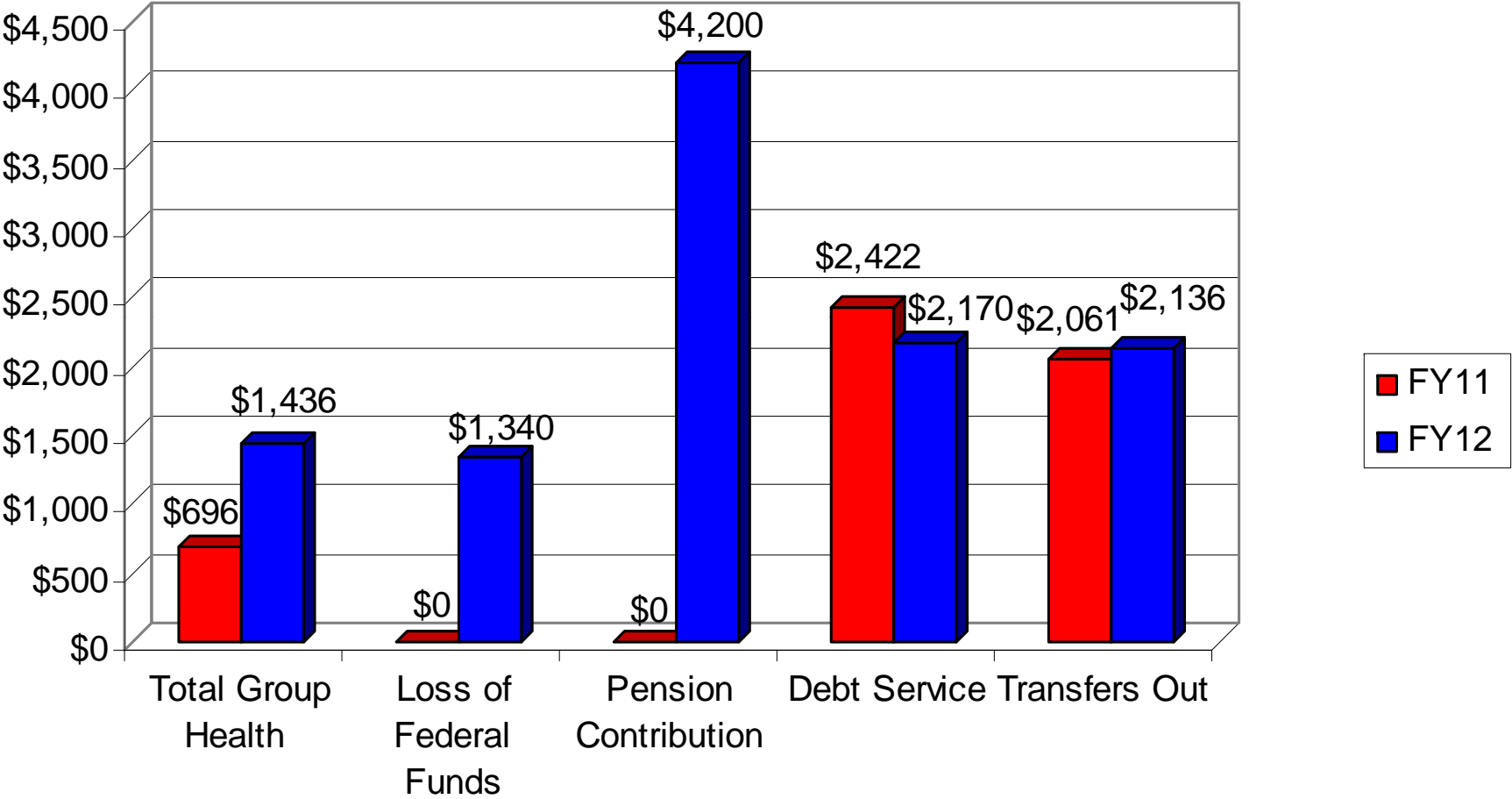


**SJR29 FY12 Projected
General Revenue Fund by Source
\$34,282 Million**



Spending Pressures

(in millions)



2. Set the Priorities of Government: The Results Citizens Desire

- Ask citizens:
 - Surveys
 - Focus groups
 - Internet surveys
 - We have set up a commission.
- This input creates legitimacy for the process.
- Through this input, legislators and leaders make final decision.

2. Set the Priorities of Government: The Results Citizens Desire

- On the Governor's Office of Management and Budget Website, there is a survey that asks the public to rank the proposed Fiscal Year 2012 budget priorities:
 - <http://www2.illinois.gov/budget/Pages/default.aspx>

IL Priorities of Government

| Results |
|--|
| Providing a quality education and opportunities for growth. |
| Growing the jobs of today while working to create the global industries of tomorrow. |
| Protecting businesses and residents from crime, catastrophe and wrongdoing. |
| Protecting our children, veterans, poor, disabled, elderly and sick. |
| Making government more efficient and effective. |
| Maintaining our cultural and natural resources. |

3. The Leadership Team Then Prices the Priorities: How Much Should You Spend on Each?

- How much are they each worth? *Not* how much do they cost?
- It's judgment--a strategic choice--not science.
- These numbers can be adjusted later in the process--but they serve to create a finite pot of money for each outcome goal.

4. Deliver the Outcomes: Results Teams Create Purchasing Strategies

- Results Teams are “Buying Agents” for citizens
- They include strategic thinkers who do not have an axe to grind or a program to protect.
- They could include legislators, legislative staff, executive staff, and knowledgeable outsiders (from academia, think tanks, etc.).

Appropriations Committee

- Every state agency received a letter from the Appropriations Chairs asking the following:
 - What are the outcomes your agency is attempting to achieve?
 - What are the measurable results of these outcomes?
 - What is the value of the outcomes?
 - What outcomes have been achieved in the past?
 - How does the agency plan to improve the value of services it provides?

IL Human Services

Division of Human Capital

- Outcomes:
 - Assist families in attaining economic stability.
 - Improve health and alleviate food insecurity.
 - Provide shelter and prevent homelessness.
 - Assist working families by providing quality child care.
 - Facilitate immigrant integration and attained citizenship.

IL Human Services

Division of Human Capital

- Performance Measures (historical):
 - 46% of homeless adults and children were placed in permanent or transitional housing upon leaving the shelter.
 - 72% of persons leaving supportive housing attained independent living.
 - 88% of all households that received homeless prevention assistance maintained their housing.

IL Human Services

Division of Human Capital

- Value:
 - 2.5 billion in benefits to families (temporary assistance) generated \$4.6 billion in economic activity.
 - \$1 million prevents homelessness in 2,500 households.
 - Every \$1 dollar invested in child case saves taxpayers \$13 in future costs.

Strategies

- Focus on homeless prevention: reduces demand for other services—crisis intervention, relocation assistance, etc.
- Focus on supportive housing for formerly homeless persons: results in decreases in in-patient psychiatric care, county jail interactions, uncompensated hospital care.
- Focus on increasing the number of children cared for in a licensed setting: leads to fewer children in special education, fewer welfare payments.

Results Teams Issue “Requests for Results”

- Define basic purchasing strategies: What matters most?
- Those strategies go into “Requests for Results,” which take the place of Budget Instructions.
- Ideally, “sellers” would include other government agencies, non-profits, and for-profits.

“Sellers” Make Offers

- Offers promise a specific level of performance at a specific price.
- They include proposed measures of performance.
- Offers assume no guarantee of funding based on historic levels.
- Offers are opportunities for departments to propose new, innovative practices.

Buyers Seek the Most Results for the Money

- Results Teams rank order offers
- Start buying from the top
- Draw a line when they run out of money

Results Teams Send the Rankings Out and Ask Sellers to Prepare Better Offers

- Sellers get serious when they see they're below the line or near the line.
- In one jurisdiction, 80% of second-round offers were changed.

Innovative Offers: Examples

- Iowa: Reinvented the Corrections Department, to drive down recidivism
- Washington State: Moved \$45 million from ER care to drug and alcohol treatment under Medicaid
- Illinois is working on unified budgeting in the area of long-term care for seniors and the developmentally disabled.

The Bottom Line

- Focus on the ‘keeps,’ not just the cuts
- Buy results, not costs
- Low-value spending is forced out of the budget
- Important new investments go to the front of the queue
- General interest trumps special interests
- Performance accountability
- Continuous reform/improvement
- “Common Sense” communications

Making Progress

- Now, we require multi-year revenue forecast.
- Agencies must establish outcomes and performance measurements.
- Governor must provide quarterly budget statements that compare actual versus budgeted results.
- Appropriations committees have statutory authority to eliminate or keep programs based on their capacity to deliver on their goals and objectives.

Making Progress

- Cost is being phased out as the overriding reason for why a state budgets spending for a particular program or service.
- Soon we will take politics out of spending decisions on our state, focusing more on performance, more on what has the best return on investment for taxpayers.